

## DEPARTMENT OF FINANCE BILL ANALYSIS

**AMENDMENT DATE:** March 19, 2009  
**POSITION:** Neutral, if amended  
**SPONSOR:** State Controller

**BILL NUMBER:** SB 116  
**AUTHOR:** R. Calderon

### **BILL SUMMARY:** State Warrants

SB 116 would make a number of changes to provisions of the Government Code that deal with registered warrants (IOUs) and registered reimbursement warrants (RAWs). Some of the changes proposed in this bill are needed for the Office of the Attorney General (OAG) to issue a clean opinion for a state RAWs sale.

### **FISCAL SUMMARY**

This bill would authorize an increase in the maximum interest rate for IOUs (from 5 percent to 12 percent). Depending on market forces, this could result in unknown increased interest costs. At the same time, there is an unquantifiable value in having the flexibility to establish interest rates that match market conditions. This bill could also result in unknown interest cost savings to the extent that the State Controller redeems RAWs prior to maturity or makes periodic interest payments on RAWs.

### **COMMENTS**

We recommend a neutral position on SB 116 because it makes numerous changes that are needed for the OAG to issue a clean opinion for a state RAWs sale. Nevertheless, Finance has the following concerns:

This bill would authorize the Controller to establish periodic payment dates (instead of a single payment date) for interest on RAWs. This could have a significant impact on statewide cash flow. Accordingly, Finance believes that the bill should be amended to authorize the Controller to establish periodic payment dates for interest on RAWs only with the prior concurrence of Finance and the State Treasurer's Office (see attached suggested amendment language).

This bill would also authorize the Controller to redeem RAWs prior to maturity at a redemption price not to exceed 110 percent of the principal amount of the RAW plus accrued interest. As this, too, could have a significant impact on statewide cash flow, Finance believes that the bill should be amended to require, in such cases, the prior approval of the PMIB (see attached suggested amendment language).

### **ANALYSIS**

#### Programmatic Analysis

This bill would make a number of changes to existing law related to IOUs and RAWs, including:

- Add "warrants" to the list of securities ("Bonds, *warrants*, and notes of this state . . .") that are eligible for the investment of surplus moneys by the State Treasurer. [GC Section 16430]
- Revise provisions for the establishment of interest rates on IOUs and RAWs issued for the payment of principal or interest on notes and various credit enhancement instruments. [GC Sections 17212]

Analyst/Principal (0110) D. Craig	Date	Program Budget Manager Veronica Chung-Ng	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

<b>BILL ANALYSIS</b>	Form DF-43 (Rev 03/95 Buff)
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SB 116

- Authorize the PMIB, by a majority vote, upon a determination that it is in the best interests of the state to do so, to fix the rate of interest paid on IOUs and RAWs at no more than 12 percent (current law allows for a maximum of 5 percent). [GC Section 17222]
- Authorize the Controller to establish periodic payment dates (instead of a single payment date) for interest on RAWs that carry a maximum (12 percent) interest rate. [GC Section 17243]
- Set a cap of 12 percent on the interest rate that the PMIB may establish for RAWs. [GC Section 17244]
- Prohibit the sale of RAWs at less than their offered face value. This would ensure that any amount drawn against the General Cash Revolving Fund for the sale of RAWs would be repaid on a dollar-for-dollar basis. According to the bill's sponsor, this provision responds to a concern by the OAG. [GC Section 17245]
- Restrict the use of any premium received on the sale of RAWs to the payment of interest on those warrants. [GC Section 17253]
- Allow a RAW to provide for its redemption prior to maturity at the option of the Controller at a redemption price not to exceed 110 percent of the principal amount of the IOU plus accrued interest. This "optional redemption price" would be paid by the Treasurer out of any unapplied money in the General Fund available for that purpose on the "optional redemption date." According to the bill's sponsor, this provision responds to a concern of the OAG and does not provide additional spending authority. Instead, it provides a cap that does not otherwise exist on a continuous appropriation. [GC Section 17271]
- Allow a RAW to provide that its interest may accrue to a person other than the holder of the warrant. [GC Section 17275]
- Clarify that, if there are insufficient funds to pay a RAW at maturity, the warrant will continue to bear interest on the principal amount only. [GC Section 17276]
- Provide that, if IOUs are used for the payment of interest on RAWs, the IOUs will bear interest at a rate determined by the Controller and as specified in the RAW as the applicable interest rate. It would further specify that interest on such IOUs would be payable only upon redemption (i.e., no periodic interest payments). [GC Section 17276]
- Limit the sum of interest payments on a combination of RAWs and IOUs for the payment of interest on the RAWs to 12 percent (the maximum that could be authorized by the PMIB). [GC Section 17276]

## Fiscal Analysis

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
9620/Interest GF	SO	No	-----	See Fiscal Summary				-----	0001

Suggested Amendments  
SB 116 (As amended March 19, 2009)

Amend Section 6 to read:

17243. The Controller may fix a maturity date for reimbursement warrants, and indorse upon each warrant, the date upon which the principal amount of the warrant will be paid and redeemed. The Controller, *with the prior concurrence of the Department of Finance and the State Treasurer's Office*, may fix periodic payment dates for interest on reimbursement warrants or provide that interest on reimbursement warrants be paid only upon redemption, provided that interest on registered reimbursement warrants for which the committee has not fixed a maximum rate of interest pursuant to Section 17244 shall be paid only upon redemption of the registered reimbursement warrant.

Amend Section 10 to read:

17271. (a) A registered warrant that bears a maturity date shall be paid by the Treasurer upon that date out of any unapplied money in the General Fund on the due date, available therefor.

(b) Notwithstanding subdivision (a), accrued interest on a registered reimbursement warrant shall be paid by the Treasurer on each payment date established pursuant to Section 17243 out of any unapplied money in the General Fund available therefor on the payment date.

(c) Notwithstanding subdivision (a), a registered reimbursement warrant may provide that it may be redeemed at the option of the ~~Controller~~ *committee* prior to the maturity date of the warrant at a redemption price not to exceed 110 percent of the principal amount of the warrant plus accrued interest. The optional redemption price shall be paid by the Treasurer out of any unapplied money in the General Fund available therefor on the optional redemption date.